

**RESPARCS FUNDING II LIMITED PARTNERSHIP**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31ST DECEMBER 2007**

Ref: 93259  
Sims: 1618496

# **RESPARCS FUNDING II LIMITED PARTNERSHIP**

## **REPORT OF THE GENERAL PARTNER**

The General Partner, European Capital Investment Opportunities Limited, presents its annual report and the audited financial statements for the year ended 31st December 2007.

### **CHANGE OF ACCOUNTING POLICY**

The General Partner has prepared these financial statements in accordance with International Financial Reporting Standards. Further details are given in note 1 to the financial statements. The financial statements were prepared using Generally Accepted Accounting Principles in the United Kingdom in the prior year.

### **PARTNERSHIP**

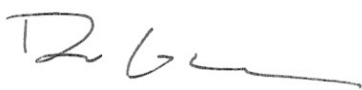
Resparcs Funding II Limited Partnership (the "Partnership") was established on 17th April 2003 and is registered as a limited partnership in Jersey under the Limited Partnerships (Jersey) Law 1994 for an unlimited duration. The Partnership commenced activities on 26th May 2003, with the issue of €500,000,000 nominal of RESPARC Securities.

### **ACTIVITIES**

The principal activity of the Partnership is to participate in financing activities arranged for HSH Nordbank Aktiengesellschaft ("HSH Nordbank"). The Partnership has issued €500,000,000 nominal of 7.5% Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities (the "RESPARC Securities"), the proceeds from which have been used to acquire a silent capital interest (the "Silent Contribution") in the commercial enterprise of HSH Nordbank in the form of a "Stille Gesellschaft" under German law in the amount of €500,000,000. The market for the Silent Contribution and hence the RESPARC Securities issued by the Partnership, is limited to highly sophisticated investors who understand the risks and rewards associated with these financial instruments. The RESPARC Securities are listed on the Frankfurt Stock Exchange and the Official Segment of the stock market of Euronext Amsterdam N.V.

### **INDEPENDENT AUDITORS**

PricewaterhouseCoopers CI LLP have expressed their willingness to continue in office.



Signed on behalf of  
**European Capital Investment Opportunities Limited**  
General Partner

Date: 1/02/08.

## RESPARCS FUNDING II LIMITED PARTNERSHIP

### STATEMENT OF GENERAL PARTNER'S RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The General Partner is responsible for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards.

The General Partner is responsible for the preparation of financial statements for each financial period which give a true and fair view of the surplus or deficit of the Partnership for the period and of the state of affairs at the end of the period. In preparing the financial statements the General Partner should:

- \* select suitable accounting policies and then apply them consistently;
- \* make judgements and estimates that are reasonable and prudent;
- \* state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- \* prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Partnership will continue in business.

The General Partner is responsible for keeping accounting records which are sufficient to show and explain the Partnership's transactions and are such as to disclose with reasonable accuracy, at any time, the financial position of the Partnership. The General Partner is also responsible for safeguarding the assets of the Partnership and hence for taking reasonable steps for the prevention and detection of fraud, errors and other irregularities.

**INDEPENDENT AUDITORS' REPORT TO THE PARTNERS OF  
RESPARCS FUNDING II LIMITED PARTNERSHIP**

**Report on the Financial Statements**

We have audited the accompanying financial statements of Resparcs Funding II Limited Partnership which comprise the balance sheet as of 31 December 2007 and the statement of income and expenditure, the statement of changes in partners' equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

**General Partners' responsibility for the Financial Statements**

The General Partner is responsible for the preparation and fair presentation of these financial statements in accordance with the supporting Limited Partnership Agreement. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the General Partner, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**


In our opinion, the financial statements have been properly prepared in accordance with the supporting Limited Partnership Agreement.

**Report on Other Matters**

We read the other information contained in the Annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Report of the General Partner.

In our opinion the information given in the Report of the General Partner is consistent with the financial statements.

This report, including the opinion, has been prepared for and only for the Partners and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

  
PricewaterhouseCoopers CI LLP  
Chartered Accountants  
Jersey, Channel Islands

2008

**RESPARCS FUNDING II LIMITED PARTNERSHIP**

**BALANCE SHEET**

**AS AT 31ST DECEMBER 2007**

|                                     | <u>Notes</u> | <u>2007</u>          | <u>Restated</u><br><u>2006</u> |
|-------------------------------------|--------------|----------------------|--------------------------------|
| <b>NON-CURRENT ASSETS</b>           |              |                      |                                |
| Loans and receivables               | 2            | 500,000,000          | 500,000,000                    |
| <b>CURRENT ASSETS</b>               |              |                      |                                |
| Trade and other receivables         | 3            | 39,459,602           | 39,459,720                     |
| Cash and cash equivalents           | 4            | 461,037              | 725,186                        |
|                                     |              | <u>39,920,639</u>    | <u>40,184,906</u>              |
| <b>TOTAL ASSETS</b>                 |              | <u>€ 539,920,639</u> | <u>€ 540,184,906</u>           |
| <b>EQUITY AND LIABILITIES</b>       |              |                      |                                |
| <b>Capital and reserves</b>         |              |                      |                                |
| Capital account                     |              | 1,000                | 1,000                          |
| Retained earnings                   |              | 112,995              | 246,725                        |
| <b>TOTAL PARTNERS' EQUITY</b>       |              | <u>113,995</u>       | <u>247,725</u>                 |
| <b>Non-current liabilities</b>      |              |                      |                                |
| Loans payable                       | 6            | 20,180,192           | 20,176,875                     |
| Capital Securities                  | 7            | 500,000,000          | 500,000,000                    |
|                                     |              | <u>520,180,192</u>   | <u>520,176,875</u>             |
| <b>Current liabilities</b>          |              |                      |                                |
| Trade payables                      | 5            | 19,626,452           | 19,760,306                     |
| <b>TOTAL EQUITY AND LIABILITIES</b> |              | <u>€ 539,920,639</u> | <u>€ 540,184,906</u>           |

The financial statements were approved and authorised for issue by the Board of the General Partner on the 1<sup>st</sup> day of FEBRUARY 2008 and were signed on its behalf by:

Director: *[Signature]*

*(The notes on pages 8 to 17 form part of these financial statements)*

# RESPARCS FUNDING II LIMITED PARTNERSHIP

## INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2007

|  | <u>Notes</u> | <u>2007</u>  | <u>Restated</u><br><u>2006</u> |
|--|--------------|--------------|--------------------------------|
| <b>INCOME:</b>                             |              |              |                                |
| Profit Participation receivable            | 2            | 38,250,000   | 38,250,000                     |
| Under accrual from the prior year          |              | -            | 6                              |
| Deposit interest receivable                |              | 29,623       | 2,101                          |
| German fiscal fees refund                  |              | 1,242        | -                              |
| Unrealised gain on exchange                |              | 524          | -                              |
|  |              | 38,281,389   | 38,252,107                     |
| <b>EXPENDITURE:</b>                        |              |              |                                |
| Interest payable on Securities issued      | 7            | 37,500,000   | 37,500,000                     |
| Transaction fee payable                    |              | 400          | 384                            |
| Loan interest payable                      |              | 724,763      | 606,965                        |
| Support undertaking fees                   |              | 122,339      | 121,000                        |
| Listing expenses                           |              | 5,000        | 5,000                          |
| Administration fees - Maurant & Co         |              | 16,892       | 14,748                         |
| Management fees - Maurant & Co             |              | 11,555       | 6,323                          |
| Audit fees                                 |              | 15,665       | 11,055                         |
| Bank Charges                               |              | 242          | 221                            |
| Expenses paid on behalf of General Partner |              | 17,617       | 24,206                         |
| German fiscal fees payable                 |              | 646          | 1,300                          |
|  |              | 38,415,119   | 38,291,202                     |
| <b>LOSS FOR THE YEAR</b>                   |              | € ( 133,730) | ( 39,095)                      |

### Continuing operations

All items dealt with in arriving at the net loss for the year ended 31st December 2007 and the net loss for the year ended 31st December 2006 relate to continuing activities.

*(The notes on pages 8 to 17 form part of these financial statements)*

**RESPARCS FUNDING II LIMITED PARTNERSHIP**

**STATEMENT OF CHANGES IN PARTNERS' EQUITY**

**FOR THE YEAR ENDED 31ST DECEMBER 2007**

|  | Capital<br>Contributed | Retained<br>earnings | Total      |
|--|------------------------|----------------------|------------|
| Balance at 1st January 2007              | 1,000                  | 246,725              | 247,725    |
| Loss for the year                        | -                      | ( 133,730)           | ( 133,730) |
| Balance at 31st December 2007            | € 1,000                | € 112,995            | € 113,995  |
| Balance at 1st January -2006 (restated)  | 1,000                  | 285,820              | 286,820    |
| Loss for the year (restated)             | -                      | ( 39,095)            | ( 39,095)  |
| Balance at 31st December 2006 (restated) | € 1,000                | € 246,725            | € 247,725  |

*(The notes on pages 8 to 17 form part of these financial statements)*

**RESPARCS FUNDING II LIMITED PARTNERSHIP**

**CASHFLOW STATEMENT**

**FOR THE YEAR ENDED 31ST DECEMBER 2007**

|   | <u>2007</u>          | <u>Restated</u><br><u>2006</u> |
|---|----------------------|--------------------------------|
| <b>Cash flows from operating activities</b>                   |                      |                                |
| Loss for the year   | ( 133,730)           | ( 39,095)                      |
| (Decrease)/increase in trade payables                         | ( 133,854)           | 638,645                        |
| Decrease/(Increase) in trade and other receivables            | 118                  | ( 10,087,790)                  |
| Deposit interest receivable                                   | ( 29,623)            | ( 2,101)                       |
| Interest payable on Securities issued                         | 37,500,000           | 37,500,000                     |
| Profit participation receivable                               | ( 38,250,000)        | ( 38,250,000)                  |
| <b>Net cash flow from operating activities</b>                | <u>( 1,047,089)</u>  | <u>( 10,240,341)</u>           |
| <b>Cash flows from investing activities</b>                   |                      |                                |
| Deposit interest received                                     | 29,623               | 2,101                          |
| Profit participations received                                | 38,250,000           | 38,250,000                     |
| <b>Net cash flow from investing activities</b>                | <u>38,279,623</u>    | <u>38,252,101</u>              |
| <b>Cash flows from financing activities</b>                   |                      |                                |
| Amount drawn under Loan Agreement                             | 3,317                | 10,088,437                     |
| Interest paid on Securities issued                            | ( 37,500,000)        | ( 37,500,000)                  |
| <b>Net cash flow from financing activities</b>                | <u>( 37,496,683)</u> | <u>( 27,411,563)</u>           |
| <b>Net (decrease)/increase in cash and cash equivalents</b>   | <u>( 264,149)</u>    | <u>600,197</u>                 |
| <b>Cash and cash equivalents at the beginning of the year</b> | <u>725,186</u>       | <u>124,989</u>                 |
| <b>Cash and cash equivalents at the end of the year</b>       | <u>€ 461,037</u>     | <u>€ 725,186</u>               |

*(The notes on pages 8 to 17 form part of these financial statements)*



# RESPARCS FUNDING II LIMITED PARTNERSHIP

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31ST DECEMBER 2007

#### 1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

##### **Basis of accounting**

These financial statements have been prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS").

IFRS 1, First-time Adoption of International Financial Reporting Standards, has been applied in preparing these financial statements. These financial statements are the first financial statements of the Partnership to be prepared in accordance with IFRS.

The policies set out below have been consistently applied to both periods presented.

Financial statements of the Partnership until 31st December 2006 had been prepared in accordance with applicable accounting standards in the United Kingdom ("UK GAAP"). The date of transition to IFRS is therefore 1st January 2007. There has been no effect on the Partnership's interests or the Partnership's profit or loss as a result of the transition from UK GAAP to IFRS and therefore no reconciliation has been presented in these financial statements.

##### **Use of estimates**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the year. Actual results could differ from those estimates.

##### **Loans and Receivables**

The Partnership has designated its investments as loans and receivables under International Accounting Standard 39 'Financial Instruments: Recognition and Measurement' ("IAS 39"). Loans and receivables are initially recognised at cost on the date of purchase and are stated at amortised cost thereafter. Loans and receivables are derecognised when the rights to receive cash flows from the investments have expired or the Partnership has transferred substantially all risks and rewards of ownership.

##### **Capital Securities**

Capital Securities are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, Securities are stated at amortised cost using the effective interest method. The scheduled redemption amount of the Securities at the scheduled maturity dates will be the lesser of (i) the nominal amount invested; or (ii) the amount received by the Partnership in respect of the redemption of the Investments held by the Partnership. The Capital Securities are derecognised when the obligations under the Capital Securities are discharged, cancelled or expired.

The Directors of the General Partner have considered the characteristics of the Capital Securities, and the requirements of International Accounting Standard 32 'Financial Instruments: Disclosure and Presentation' ("IAS 32") and consider that the most appropriate classification of these securities is as other financial liabilities.

# RESPARCS FUNDING II LIMITED PARTNERSHIP

## NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2007

### 1. ACCOUNTING POLICIES - (CONTINUED)

#### **Fair Value Estimation**

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e., the fair value of the consideration given or received). The fair value of financial instruments traded in active markets (such as the quoted investments) is based on quoted market prices at the balance sheet date.

The Partnership may invest in financial instruments that are not traded in an active market. The fair value of such instruments is determined by using valuation techniques. The Partnership uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Valuation techniques used include the use of comparable recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

#### **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### **Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

#### **Currency of domicile, functional currency and presentation currency**

The currency of domicile is GBP (pounds sterling). Items included in the financial statements of the Partnership are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Euro, which is the Partnership's functional and presentation currency.

#### **Foreign currencies**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

#### **Segmental reporting**

In the General Partner's opinion there are no reportable business segments or geographical segments as the Partnership's activities are limited to one main business and geographic segment.

#### **Employees**

The Partnership had no employees during the year ended 31st December 2007 or the prior period ended 31st December 2006.

**RESPARCS FUNDING II LIMITED PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

**FOR THE YEAR ENDED 31ST DECEMBER 2007**

**1. ACCOUNTING POLICIES - (Continued)**

**IFRS 7, Financial Instruments: Disclosure, and a complimentary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1st January 2007)**

Effective from 1 January 2007, IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Partnership assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment to IAS 1. The Partnership has applied IFRS 7 with the amendment to IAS 1 from 1st January 2007.

**2. LOANS AND RECEIVABLES**

Silent capital interest in the commercial enterprise of HSH Nordbank

|  | <u>2007</u>   | <u>Restated<br/>2006</u> |
|--|---------------|--------------------------|
|  | € 500,000,000 | € 500,000,000            |

On 28th May 2003, the Partnership acquired a silent capital interest (the "Participation" or the "Silent Contribution") in the commercial enterprise (Handelsgerwerbe) of Landesbank Schleswig-Holstein Girozentrale ("LB Kiel") with retroactive effect as of 1 January 2003. The Participation is in the form of a Stille Gesellschaft under German law pursuant to an agreement dated 23rd May 2003 (the "Participation Agreement") providing for an asset contribution by the Partnership to LB Kiel in the amount of €500,000,000. LB Kiel has now merged with Hamburgische Landesbank Girozentrale ("Hamburg LB" or "HLB") into HSH Nordbank Aktiengesellschaft ("HSH Nordbank").

Under the Participation Agreement the Partnership is entitled to receive Profit Participations on the Silent Contribution. Profit Participations accrue for Profit Periods running from 1st January to 31st December with the exception of the first Profit Period, which ran from 28th May 2003 to 31st December 2003 and the last Profit Period, which runs from 1st January of the year in which the Termination Date occurs and ends on the Termination Date. Profit Participations are receivable annually in arrears on the later of (i) 30th June in the year following the end of the relevant Profit Period, and (ii) the business day following the date on which HSH Nordbank's annual financial statements have been adopted for the fiscal year of HSH Nordbank to which the relevant Profit Period relates. No Profit Participation shall accrue for the Profit Period in which the Termination Date occurs.

# RESPARCS FUNDING II LIMITED PARTNERSHIP

## NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2007

### 2. LOANS AND RECEIVABLES - (Continued)

Profit Participations are received net of German withholding tax and any solidarity surcharge, if applicable (together "WHT"). European Equity Participation Management GmbH (the "Issuer Limited Partner") reclaims such WHT, to the extent that such amounts exceed the amount of German tax payable by the Issuer Limited Partner, and then pays the amounts reclaimed on to the Partnership under the terms of the Contribution Agreement. Under the Loan Agreement, HSH Nordbank is required to advance to the Partnership an amount equal to the WHT deducted. On this basis, the Partnership does not effectively suffer WHT on its profit participation, and accordingly the investment income is shown gross and the net amount of WHT suffered by the partnership is shown in the Income Statement.

At the outset of the transaction it was agreed between the Partnership and HSH Nordbank that the Profit Participations for each year would consist of two elements: 50% relating to the first half of the relevant Profit Period and 50% relating to the second half of the relevant Profit Period, with the second element being payable only if the Partnership still remains a Silent Partner until the payment date.

Following the first Profit Period, subject to HSH Nordbank having sufficient distributable profits, Profit Participations accrue on the book value of the Silent Contribution at a rate of 7.65% p.a.

The Participation is a perpetual instrument. The Silent Contribution will only be repaid to the Silent Partner after termination of the Participation Agreement by HSH Nordbank. HSH Nordbank may only terminate the Participation Agreement if either (i) tax or regulatory changes occur but in no case before 31st December 2008, or (ii) on or after 31st December 2011, with 2 years' prior notice to the Silent Partner (with termination becoming effective on or after 31st December 2013) so long as HSH Nordbank's solvency ratio exceeds 9% on a sustainable, unconsolidated or consolidated basis.

### 3. TRADE AND OTHER RECEIVABLES

Refund of withholding tax receivable  
Profit Participation receivable  
Prepaid German fiscal fees

|  | <u>2007</u>         | <u>Restated</u><br><u>2006</u> |
|--|---------------------|--------------------------------|
|  | 20,176,876          | 20,176,876                     |
|  | 19,282,198          | 19,282,198                     |
|  | 528                 | 646                            |
|  | <u>€ 39,459,602</u> | <u>€ 39,459,720</u>            |

### 4. CASH AND CASH EQUIVALENTS

HSH Nordbank - EUR account 53004300  
HSH Nordbank - EUR account 53004295

|  | <u>2007</u>      | <u>Restated</u><br><u>2006</u> |
|--|------------------|--------------------------------|
|  | 905              | 908                            |
|  | 460,132          | 724,278                        |
|  | <u>€ 461,037</u> | <u>€ 725,186</u>               |

**RESPARCS FUNDING II LIMITED PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

**FOR THE YEAR ENDED 31ST DECEMBER 2007**

**5. TRADE PAYABLES**

|  | <u>2007</u>         | <u>Restated<br/>2006</u> |
|--|---------------------|--------------------------|
| Interest payable on RESPARC Securities | 18,904,110          | 18,904,110               |
| Mourant & Co. - Administration fees    | 3,912               | 4,488                    |
| Loan interest payable                  | 707,065             | 810,392                  |
| Audit fee payable                      | 11,365              | 10,983                   |
| Support Undertaking Fee payable        | -                   | 30,333                   |
|  | <u>€ 19,626,452</u> | <u>€ 19,760,306</u>      |

**6. LOANS PAYABLE**

|                                   | <u>2007</u>  | <u>Restated<br/>2006</u> |
|-----------------------------------|--------------|--------------------------|
| Loan from HSH Nordbank Luxembourg | € 20,180,192 | € 20,176,875             |

**Liquidity Facility**

The Partnership has been granted a Liquidity Facility up to a maximum amount of €22,000,000. The Liquidity Facility is available until the termination date of the Participation Agreement, on which date any amounts advanced under the Liquidity Facility will become repayable. Interest is payable quarterly in arrears at the 12 month Euribor rate plus a margin of 0.3%.

**Loan Agreement**

The Partnership has been granted an unlimited facility under a Loan Agreement dated 26th May 2003 between the Partnership and HSH Nordbank Luxembourg. On each date on which a Profit Participation payment or Silent Contribution replenishment becomes due, HSH Nordbank Luxembourg is required to pay to the Partnership an advance in an amount corresponding to the withholding made by HSH Nordbank on account of either WHT on the relevant Profit Participation Payment, or Silent Contribution replenishment.

Pursuant to a Contribution Agreement dated 26th May 2003, the Limited Partner must pay to the Partnership all payments it receives from the German tax authorities on account of its Tax Refund Claim. The Partnership expects to repay such advances with the monies that it receives under the Contribution Agreement. Under the Loan Agreement the Partnership must use these monies to promptly repay outstanding advances. If such amounts received are insufficient to repay the advances in full, the liabilities of the Partnership are supported by HSH Nordbank Luxembourg under the Support Undertaking, as described in note 8. The loan agreement was amended on 21st December 2007. The rate of interest was equivalent to 4% per annum up to and including the 30th June 2007 and thereafter was charged at a rate equivalent to 3% per annum from 1st July 2007.

**RESPARCS FUNDING II LIMITED PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

**FOR THE YEAR ENDED 31ST DECEMBER 2007**

**7. CAPITAL SECURITIES**

|                           | <u>2007</u>   | <u>Restated</u><br><u>2006</u> |
|---------------------------|---------------|--------------------------------|
| RESPARC Securities issued | € 500,000,000 | € 500,000,000                  |

On 28th May 2003 the Partnership issued €500,000,000 aggregate nominal amount of 7.5% Re-Engineered Silent Participation Assimilated Regulatory Capital (RESPARC) Securities (the "RESPARC Securities"), the proceeds from which have been used to acquire a silent capital interest (the "Silent Contribution") in the commercial enterprise of HSH Nordbank in the form of a "Stille Gesellschaft" under German law in the amount of €500,000,000. The nominal amount of each RESPARC Security is €1,000. The RESPARC Securities are listed on the Frankfurt Stock Exchange and the Official Segment of the stock market of Euronext Amsterdam N.V.

The RESPARC Securities bear interest at a rate of 7.5% p.a., accruing from 28th May 2003, payable annually in arrears on the same date as the relevant Profit Participations are received by the Partnership. It is expected that the normal coupon date will be 30th June of each year, commencing 30th June 2004. Coupon payments are contingent on the Partnership's actual receipt of Profit Participation payments from HSH Nordbank under the Participation Agreement and advances from HSH Nordbank Luxembourg under the Loan Agreement.

The RESPARC Securities are perpetual securities, having no mandatory maturity date. However, the Preferred Securities may be redeemed, at the option of HSH Nordbank, on the date on which the Silent Contribution is repaid in accordance with the Participation Agreement. The redemption amount will equal the Repayment Amount required to be paid by HSH Nordbank under the Participation Agreement. The RESPARC Securities will also be redeemable, in whole but not in part, at the option of the Partnership, on 30th June 2009 and annually thereafter. However, such early termination is only permissible if financing of the redemption of the RESPARC Securities at their nominal amount, plus any interest accrued thereon, has been secured through the issuance of similar debt securities or in any other way.

The liabilities of the Partnership under the RESPARC Securities are supported by HSH Nordbank Luxembourg under the Support Undertaking, as described in note 8.

**8. SUPPORT UNDERTAKING AND SUPPORT UNDERTAKING FEES**

The liabilities of the Partnership are supported by HSH Nordbank Luxembourg under a Support Undertaking dated 26th May 2003. HSH Nordbank Luxembourg has undertaken to ensure that the Partnership will at all times be in a position to meet its obligations. HSH Nordbank Luxembourg's payment obligations under the Support Undertaking are subordinated to all senior and subordinated debt obligations of HSH Nordbank Luxembourg in the same manner as HSH Nordbank's payment obligations under the Participation Agreement are subordinated. A Support Undertaking Fee is payable by the Partnership to HSH Nordbank Luxembourg, quarterly in arrears on 30th March; 30th June, 30th September and 30th December, calculated at 0.32% p.a. on a nominal amount of €37,500,000.



# RESPARCS FUNDING II LIMITED PARTNERSHIP

## NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

### FOR THE YEAR ENDED 31ST DECEMBER 2007

#### 9. TAXATION

Any tax liability arising on the activity of the Partnership will be borne by the individual Limited Partners. The General Partner has been granted exempt status for Jersey taxation purposes and therefore incurs an annual exempt company fee of £600. In accordance with the Limited Partnership Agreement, this expense has been paid by the Partnership on behalf of the General Partner for the current period and is therefore reflected within these financial statements.

#### 10. PARTNERSHIP INTERESTS

The following information provides a summary of the main rights of the General Partner and the Limited Partner. It does not attempt to provide details of all circumstances, terms and conditions, and reference should also be made to the detailed provisions contained within the Limited Partnership Agreement dated 17th April 2003 and the Limited Partnerships (Jersey) Law 1994.

##### General Partner

The General Partner is European Capital Investment Opportunities Limited, incorporated in Jersey, Channel Islands. The General Partner's Partnership share is 0.01%.

##### Limited Partner

The Limited Partner is European Equity Participation Management GmbH, incorporated in Germany. The Limited Partner's Partnership share is 99.99%.

##### Partnership Profits and Losses

The profits and losses of the Partnership shall belong to or be borne by the Partners in their respective partnership share subject to the fact that the total liability of the Limited Partner shall not exceed the Capital Contribution of the Limited Partner (i.e. €1,000).

#### 11. ULTIMATE CONTROLLING PARTY

In the opinion of the directors of the General Partner, based on the terms of the Limited Partnership Agreement, European Equity Participation Management GmbH, incorporated in Germany, is considered to be the controlling party of the Limited Partnership. However the directors of the General Partner acknowledge that under IFRS HSH Nordbank is considered to be the ultimate controlling party of the Limited Partnership.

#### 12. RELATED PARTIES

N. Davies, H. Grant, G. Essex-Cater, S. Vardon, L. Follain and D. Godwin, who are or were directors of the General Partner, are also officers or authorised signatories of Mourant & Co. Secretaries Limited, which acts as Company Secretary to the General Partner. N.C. Davies is a management board member of Mourant Limited. G. Essex-Cater is a shareholder of Mourant Limited. Each of N.C. Davies, H. Grant, G. Essex-Cater, S. Vardon and D. Godwin is an employee of a subsidiary of Mourant Limited. L. Follain was an employee of a subsidiary of Mourant Limited. Affiliates of Mourant Limited provide ongoing administrative services to the Partnership at commercial rates. N.C. Davies is also a partner of Mourant du Feu & Jeune and should be regarded as interested in any contract in relation to the provision of legal services by Mourant du Feu & Jeune. The Partnership is consolidated within the HSH Nordbank group and therefore HSH Nordbank is a related party in all transactions.

Fees incurred with Mourant & Co. during the year in respect of administration and management fees are detailed on the face of the Income Statement. Amounts owed to Mourant & Co. at the year end are disclosed in Note 5 to the financial statements.

Expenses paid on behalf of the General Partner during the year are also disclosed on the face of the Income Statement.

# RESPARCS FUNDING II LIMITED PARTNERSHIP

## NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2007

### 13. FINANCIAL INSTRUMENTS

As stated in the General Partner's Report the principal activity of the Partnership is limited to participation in financing activities arranged for HSH Nordbank. The Partnership has issued the RESPARC Securities. The proceeds from the issue of the RESPARC Securities have been used to acquire a silent capital interest (the "Silent Contribution") in the commercial enterprise of HSH Nordbank. Therefore the role of financial assets and financial liabilities is central to the activities of the Partnership; the financial liabilities provided the funding to purchase the Partnership's financial assets. Financial assets and liabilities provide the majority of the assets and liabilities.

The strategies used by the Partnership in achieving its objectives regarding the use of its financial assets and liabilities were set when the Partnership entered into the transactions. The Partnership has attempted to match the properties of its financial liabilities to its assets to avoid significant elements of risk generated by mismatches of investment performance against its obligations, together with any maturity or interest rate risk.

Short term trade receivables and trade payables have been excluded from the following disclosures:

#### Interest rate risk

The Partnership finances its operations through the issue of the RESPARC Securities. The coupons payable on the RESPARC Securities are matched by the Profit Participations receivable on the Silent Contribution. Accordingly, the General Partner believes that there is no material interest rate risk to the Partnership as the interest rates are effectively fixed.

The interest rate profile of the Partnership's financial assets and financial liabilities is as follows:

|                               | Interest charging basis | Weighted average interest rate % | 2007                 |                                  | Restated 2006        |        |
|-------------------------------|-------------------------|----------------------------------|----------------------|----------------------------------|----------------------|--------|
|                               |                         |                                  | Amount               | Weighted average interest rate % | Amount               | Amount |
| <b>Financial assets:</b>      |                         |                                  |                      |                                  |                      |        |
| Silent Contribution           | Fixed                   | 7.65                             | 500,000,000          | 7.65                             | 500,000,000          |        |
| Cash and cash equivalents     | Non-interest bearing    | n/a                              | 461,037              | n/a                              | 725,186              |        |
|                               |                         |                                  | <u>€ 500,461,037</u> |                                  | <u>€ 500,725,186</u> |        |
| <b>Financial liabilities:</b> |                         |                                  |                      |                                  |                      |        |
| Loans payable -               |                         |                                  |                      |                                  |                      |        |
| Loan Agreement                | Fixed                   | 4.00                             | 20,180,192           | 4.00                             | 20,176,875           |        |
| RESPARC Securities            | Fixed                   | 7.50                             | 500,000,000          | 7.50                             | 500,000,000          |        |
|                               |                         |                                  | <u>€ 520,180,192</u> |                                  | <u>€ 520,176,875</u> |        |



## RESPARCS FUNDING II LIMITED PARTNERSHIP

### NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2007

#### 13. FINANCIAL INSTRUMENTS-(CONTINUED)

##### Currency risk

All of the Partnership's material financial assets and liabilities are denominated in Euro. Consequently, the General Partner believes that there is no material currency risk to the Partnership.

##### Credit risk

Credit risk arises from the risk that HSH Nordbank may not repay, if requested, all amounts due to the partnership under the Silent Partnership Agreement. On the basis that the RESPARC Securities issued by the Partnership are limited recourse notes, with the amount payable to Noteholders limited to the amounts received under the Silent Participation Agreement, in the opinion of the General Partner this does not represent a material risk to the Partnership.

##### Fair values

The fair value of the RESPARC Securities has been obtained from market prices. In the General Partner's opinion there is no material difference between the fair value of the Silent Contribution and the fair value of the RESPARC Securities.

##### Sensitivity analysis

As disclosed above, in the General Partner's opinion, there is no material difference between the fair value of the RESPARCS Securities and the fair value of the Silent Contribution. From the perspective of the Limited Partnership, any change in the fair value of the RESPARCS Securities would be matched by an equal and opposite change in the fair value of the Silent Contribution. Consequently the Limited Partnership is not exposed to market price risk.

Also as disclosed above, in the General Partner's opinion, there is no material interest rate risk to the Limited Partnership, nor is there any currency rate risk to the Limited Partnership.

IFRS 7 requires disclosure of "a sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date." As stated, whilst the financial instruments held by the Limited Partnership are separately exposed to interest rate risk and market price risk, the Limited Partnership itself is not exposed to market risk overall. Therefore, in the General Partner's opinion, no sensitivity analysis is required to be disclosed.

In addition, as the RESPARCS Securities and the Silent Contribution are stated at amortised cost, any changes in fair value of the RESPARCS Securities and/or the Silent Contribution would have no effect on profit or loss and/or equity.

**RESPARCS FUNDING II LIMITED PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)**

**FOR THE YEAR ENDED 31ST DECEMBER 2007**

**13. FINANCIAL INSTRUMENTS-(CONTINUED)**

|                                | <u>2007</u>          |                      | <u>Restated</u><br><u>2006</u> |                      |
|--------------------------------|----------------------|----------------------|--------------------------------|----------------------|
|                                | Book value           | Fair value           | Book value                     | Fair value           |
| <b>Financial assets:</b>       |                      |                      |                                |                      |
| Silent Contribution            | 500,000,000          | 470,000,000          | 500,000,000                    | 540,000,000          |
| Cash and cash equivalents      | 461,037              | 461,037              | 725,186                        | 725,186              |
|                                | <u>€ 500,461,037</u> | <u>€ 470,461,037</u> | <u>€ 500,725,186</u>           | <u>€ 540,725,186</u> |
| <b>Financial liabilities:</b>  |                      |                      |                                |                      |
| Loans payable - Loan Agreement | 20,180,192           | 20,180,192           | 20,176,875                     | 20,176,875           |
| RESPARC Securities             | 500,000,000          | 470,000,000          | 500,000,000                    | 540,000,000          |
|                                | <u>€ 520,180,192</u> | <u>€ 490,180,192</u> | <u>€ 520,176,875</u>           | <u>€ 560,176,875</u> |

**Maturity of financial assets and liabilities**

The maturity profile of the Partnership's financial assets and financial liabilities is as follows:

|                         | <u>2007</u>          |                       | <u>Restated</u><br><u>2006</u> |                       |
|-------------------------|----------------------|-----------------------|--------------------------------|-----------------------|
|                         | Financial Assets     | Financial Liabilities | Financial Assets               | Financial Liabilities |
| Less than one year      | 461,037              | 20,180,192            | 725,186                        | 20,176,875            |
| In more than five years | 500,000,000          | 500,000,000           | 500,000,000                    | 500,000,000           |
|                         | <u>€ 500,461,037</u> | <u>€ 520,180,192</u>  | <u>€ 500,725,186</u>           | <u>€ 520,176,875</u>  |